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for each farm household. Such amounts are too trifling to relieve the Chinese peasants who are constantly in seasonal financial difficulties, quite aside from the need for funds for increasing production.

IV. CURRENCY

A. Currency System

Notes of the People's Bank of China, first introduced in December 1948 in North China, were put in circulation throughout Central-South China following the Communist victory and the establishment of local People's Bank offices. This paper currency has become the only legal tender throughout the whole country. It was issued at first in denominations of 1, 5, 10, 50 and 100 dollars. By the second half of 1949, currency inflation made it necessary to issue notes of larger denominations of 500 and 1,000 dollars; this was followed by the 10,000 denomination note at the end of 1949, and the 50,000 denomination note at the beginning of 1954.

On February 21, 1955, a government order announced that starting on March 1 new People's Bank notes in denominations of one yuan, 2, 3, 5, and 10 yuan, one chiao (ten cents), five chiao, one fen (cent), two and five fen would be issued, and that the old People's Bank notes would be called in at the rate of 10,000 to 1.[14] After April 1, only small denomination notes of 5,000 and less of the old issue might continue to be used. It was also announced by the People's Bank that 10 yuan notes would not be issued for the time being.

14. Photo samples of some of the new notes are appended at the end of chapter. New China News Agency Release, Peking, February 21, 1955.

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The Communists hailed their currency as one of the most stable in the world. Its stability is not secured by a gold reserve, but is fully backed by the balanced position of fiscal receipts and expenditures, the balanced position of distribution of supplies and the balanced position of cash receipts and payments. This means, when translated into the language of a capitalist economy: the stability of the currency is secured by excess impositions, controlled distrubiton of supplies, forced concentration of cash funds in the government banks, and exports made possible by general starvation.

One of the most serious obstacles to currency unification in Central-South China, and also to the stabilization of the currency, had been the circulation of large amounts of Hong Kong paper currency issued by British banks. The volume was estimated to be more than half of their total issue, amounting to HK$ 900 million (about US$150 million) at the time the Communists took over Canton. On February 3, 1950, the Communists in Canton prohibited further circulation of Hong Kong and other foreign currencies, and ordered their exchange for People's Bank notes at the rate quoted by the Bank of China.[15] Propaganda and coercion were used so successfully to back up the order that Hong Kong notes had almost disappeared from the market by the end of 1950, although a small amount may still be kept hidden.

Silver dollars had circulated freely in Hankow and other interior cities when the Nationalist currency collapsed. Since they were only allowed to be

15. New China Events Quarterly, No. 1 1950, p. 72.

kept but not used in transactions, most of them were surrendered to the People's Bank in exchange for bank notes. Although some may still be hoarded, they will not have much effect on the stabilization of People's Bank currency. 436 652

The disappearance of Hong Kong currency and silver dollars from the market does not mean that the people have confidence in the Communist currency. The former were simply driven out by force. On the contrary, the continued preference among Cantonese for Hong Kong currency has been amply proved by the black market rate of People's Bank notes in Hong Kong. Before the issue of the new notes, big denominations were quoted at HK$1.48 per PB$10,000 on January 17-21, 1955, against the official rate of HK$2.34; this is a discount of 37 per cent. The black market rate of People's Bank notes rose to HK$1.85 per Yuan on July 11-16, 1955, because of the contraction of cash notes through the exchange of the old notes for the new ones. Needless to say, the people in the interior still treasure silver dollars if they are given freedom of choice.

B. Currency Control

At the time of issue of the new currency, the Communist authority boasted of the stability of People's Bank notes as proved by the fact that there had been no change in commodity prices at the time of currency conversion in March 1955 when they were required to be quoted in terms of the new currency, and that retail prices in Hankow even 652 435

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dropped by 0.83 point from the index before the issue of new currency.[16] True, the price level had been stabilized since March 1950, but this was attained by the control of commodities and, in particular, by currency control. Thus the inflationary trend of the Communist currency was concealed.

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Control of the currency has been effected by control over cash through the banking mechanism, as mentioned in the discussion of the banking system, and by the withdrawal of currency from circulation through frequent impositions. The impositions began with an issue of Victory Bonds in 1950, amounting to US$ 70 million, 30 per cent of which was allocated to Central-South China.[17] This was followed by the ammunition contribution for the Korean war made by this area in 1951, which was more than 21 per cent of the total amount of US$ 220 million.[18] During the Nationalist regime, the savings of the people in Central-South China had been relatively the smallest, as indicated by bank deposit statistics. When the Communists attempted to squeeze out people's savings by imposing penalities during the so-called Three-Anti and Five-Anti campaigns, currency held by the people had been so scanty that the People's Bank advertised in newspapers, stating it was prepared to accept silver or silver dollars. The Economic Reconstruction Loan of 1954-55 was mainly aimed at absorbing the savings held by the poorer people; the scarcity of savings was attested by the fact that workers' subscriptions were allowed to be deducted from their wages over a period of from three to ten months.

16. New China News Agency Release, Peking, March 1, 1955.

17. New China Events Quarterly, No. 4, 1949, p. 127.

18. Ho Yü-wen, Chung-kung Ts'ai-cheng Chieh-p'ou [An Analysis of Communist China's Finance], Hong Kong. Asia Press, 1953, p. 74.

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The above measures resulted in the drainage of all available funds to the government; but by doing so, these measures reduced the people's purchasing power, a heavy price indeed for the stabilization of Communist currency.